

Guidance for preparing a board skills matrix

Board composition

The ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations 3e*, introduced a number of substantive changes, including a number of governance practices that were previously noted only in the publication's commentary being elevated to recommendations, meaning that they must now be reported against on an if not, why not basis.

One such change, under Recommendation 2.2, is the need to disclose the company's board skills matrix which shows the mix of skills and diversity that the board currently has or is looking to achieve in its membership.

Many of the larger listed companies have been using a board skills matrix of some description for a number of years to assess the current skills, background and experience of those on the board and to identify any gaps that may exist. Until recently, however, most companies have chosen not to disclose this matrix and have instead limited their disclosures to a broad statement of the mix that the board has determined it requires and confirming that the composition currently satisfies this mix. Disclosing the company's board skills matrix will require careful consideration to ensure that, on the one hand, the disclosures are meaningful for investors and, on the other hand, do not include commercially sensitive information.

Other boards, particularly of smaller listed companies, may not have formal processes in place by which they assess their composition.

However, putting more rigorous and transparent processes in place to assess board composition is good practice not only for listed companies but also for unlisted organisations with boards, including both for-profit and not-for-profit organisations.

To assist organisations that are looking to introduce such processes, the AICD has prepared the following pair of Director Tools documents:

- Checklist for assessing board composition;
- Guidance for preparing a board skills matrix.

Guidance for preparing a board skills matrix¹

Things to do:	Things not to do:	Things to consider:
Identify desired skills, experience and backgrounds of the board as a whole under relevant headings, and in the form of a matrix, map these against the skills and experience of each individual board member.	Include basic competencies that are expected of all directors (for example knowledge of director duties).	Whether changes are likely to occur in the short to medium term (for example changes to strategy, changes in the external environment) that impact on the desired skills / experience / backgrounds mix of the board.
Tie desired board composition to the organisation’s strategy and the key issues facing the organisation.	Include vague or overly general sets of skills or experience. ²	The extent to which the board’s composition takes account of different scenarios, which might call for a different mix of skills, experience and/or backgrounds.
Differentiate between the skills and experience expected for the board and for the chair.		How defensible the board’s existing or planned future composition is, for example, if there are unsolicited approaches for board appointments.
Separately prepare a skills / experience / background matrix for each board committee, where they exist.		Whether is it necessary to have specialist skills, experience or backgrounds on the board, or whether it might be better to draw upon these from within management or from external advisors (this will depend, in large part, on the size of the company and the board).
Include term expiry dates (where relevant) for each board member in the matrix to assist with succession planning.		When it might be appropriate to engage an external expert to undertake a review of board and board committee compositional attributes and needs.
Use a rating scale when assessing the extent to which desired skills, experience and backgrounds exist on the board rather than a simple yes or no response.		The extent which any gaps identified in the matrix could be addressed through professional development of current board members. Whether any self-assessment process by board members adopted ensures a consistent approach and outcome. The company secretary or company representative may wish to audit this component to ensure accuracy and fairness across all directors.
Have the board, or a designated committee (for example nominations committee) critically examine the matrix at appropriate intervals (for example annually).		What is disclosed to external stakeholders, such as a statement of existing skills, experience and backgrounds that reside on the board. The board could consider developing an internal skills matrix that is easy to adapt for regular use and an external matrix that can be communicated to stakeholders.

¹ ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations 3e*, Australian Securities Exchange, 2014, Recommendation 2.2, focuses primarily on the disclosure of the skills and diversity that the board currently has or is looking to achieve in its membership. However, having the right mix of backgrounds (which would encompass diversity) and experiences is also important and should be included in the matrix.

² While the AICD would recommend against the inclusion of vague or overly general sets of skills or experience in the matrix itself, it should be acknowledged that a director who has broad, generalist skills and/or expertise is likely to be of significant value to a board, particularly where the board size is small.

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